

Indebtedness of Individuals

INDEBTEDNESS of individuals has risen sharply in the postwar period. Major factors in this expansion were mortgage purchases of homes and short-term consumer credit used in the purchasing of consumer durable goods. The total value of these forms of debt owed by individuals at the end of last year amounted to about \$82 billion, compared with \$24 billion at the end of World War II.

The exceptional rise in a 7-year period reflected for the most part the unusual postwar demand for and supply of new housing and durable consumer goods which had been in extremely limited supply during the war years. Demand was made effective primarily by the high postwar consumer incomes coupled with the greatly improved financial status of individuals arising out of wartime conditions.

The expansion of consumer indebtedness was considerably dampened in 1951 after the introduction of credit controls. This was most apparent in the case of short-term debt, although the rise in mortgage credit also appears to have been restricted. With the suspension of controls on short-term credit a year ago, the rapid expansion of such debt was renewed, and with mortgage loans also higher, total indebtedness of individuals increased in 1952 to an extent almost equaling the record \$11-billion increase of 1950.

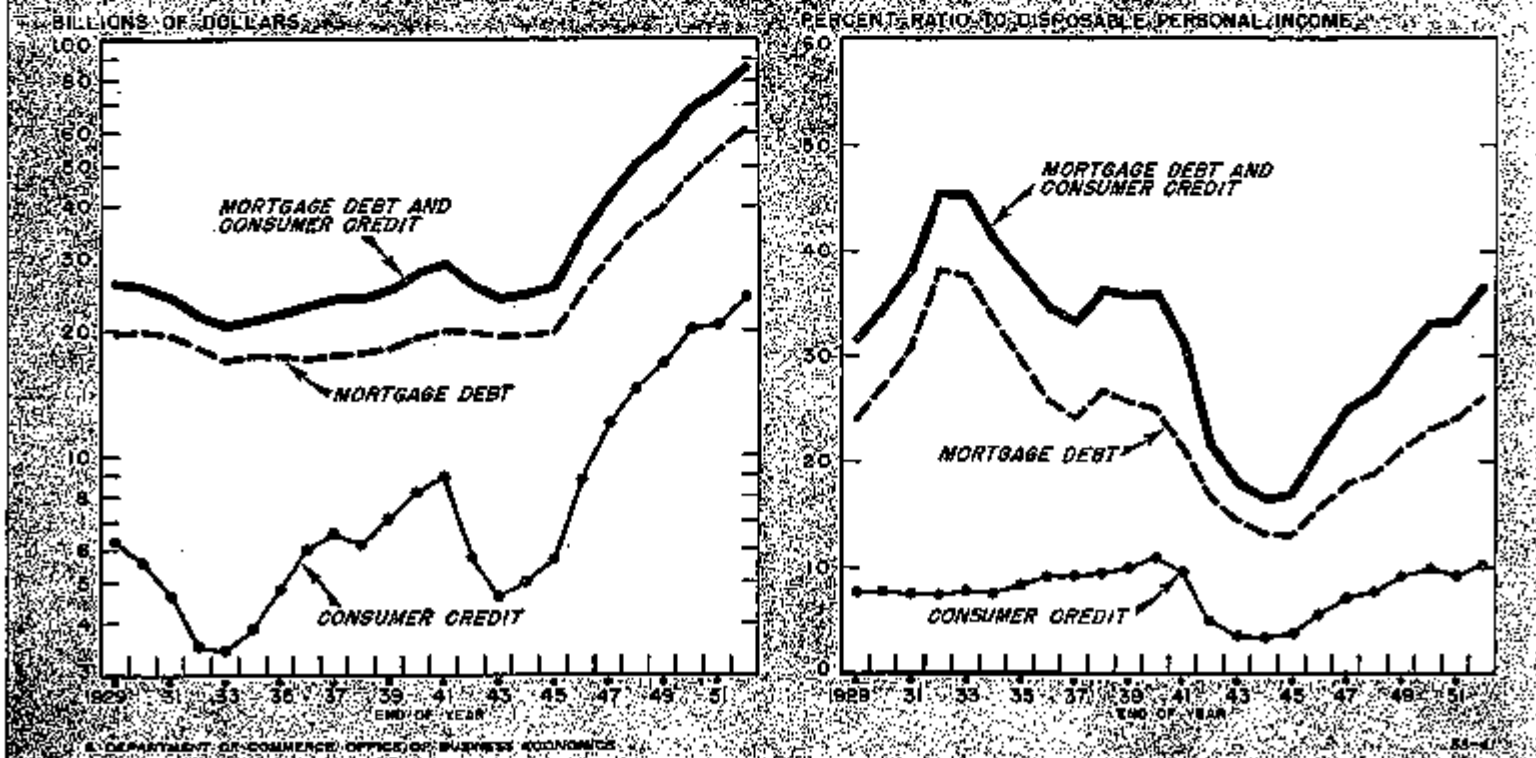
These developments have occasioned renewed concern over the consumers' general financial condition. Are they over-indebted? Can the pace of expansion continue? The following analysis represents an attempt to shed some light on these questions by placing the current debt picture in historical perspective and evaluating it in the light of relevant facts.

Summary

Despite the steep postwar rise in both short-term and mortgage debt of individuals, the current volume of outstanding debt does not appear to be of unmanageable proportions given consumers' present income and liquidity position. Considering the long-term growth in the use of credit, their debt-income ratio does not appear exceptionally high.

With consumer income up relatively almost as much as debt, ability to service consumers' debt compares favorably with earlier periods of high business activity. The impact of the larger volume of current debt on interest payments has been partly offset by the general reduction in interest rates so that this charge against income is currently relatively lower than in the twenties.

Trends in Consumer Debt Outstanding



In the mortgage field, the reduction in interest costs in part reflects the less risky nature of lending with the introduction of mortgage insurance and guarantees. There has, however, been an apparent rise in the proportion of income required for payments on principal arising out of a change in emphasis from renewable unamortized loans to contracts with fixed monthly amortization.

It must be emphasized that these generalizations apply to the current situation as it now stands—which is one of general prosperity. A reduction in consumers' income from any cause would increase the burden of the debt and, in the subsequent adjustment period, the relatively high and rigid servicing requirements would probably affect consumer markets generally. Moreover, while the overall financial situation of consumers appears generally adequate to support their current indebtedness, there may be, and probably are, groups of individuals whose financial condition is "stretched" by any sound standard.

The current liquidity position of individuals compares favorably with other periods of prosperity. Although this general picture may not apply with equal force to all income groups, available evidence seems to indicate that the liquid assets owned by individuals are fairly widely held. With the establishment of a network of insurance which affects virtually all major suppliers of credit, the institutional financial framework is today far less vulnerable to the secondary effects of dislocating developments than it was in earlier periods.

Short-Term Consumer Credit

The most striking recent change in credit developments has occurred in the use of short-term credit. Throughout most of the postwar period "time" purchases moved sharply upward. The introduction of credit controls in the latter part of 1950 and later the lessened availability of goods usually bought with the aid of credit virtually stopped this rise and kept the volume of credit on a plateau throughout 1951 and early 1952. However, with the removal of controls in May 1952 and the greatly improved supply of hard goods since that time, short-term consumer indebtedness again moved forward at a rapid rate.

Debt rising

At the end of February total short-term consumer credit outstanding amounted to \$23.5 billion, almost \$4 billion above a year ago, and down about \$0.5 billion from last December. Rough adjustments for seasonal influences suggests that during the first two months of 1953 consumer short-term debt continued upward at from \$300 million to \$500 million a month. This increase is close to, if not equal to, the very rapid rate of the last three quarters of 1952.

In order to place the present debt in perspective, several considerations should be briefly noted. In contrast to mortgage credit, the use of short-term borrowing is of relatively recent origin. This form of borrowing did not "take hold" until the twenties. This was partly a reflection of the growing importance of durables, particularly automobiles, in the consumer goods market. It was also associated with a change in attitude on the part of major lending institutions toward this type of earning asset.

As is apparent from the accompanying chart, short-term credit is more responsive to changes in economic conditions than is mortgage debt. This may in part reflect differences in the nature of the demand for the objects purchased, but the relatively short life span of the loan is also important. Be-

cause of much more rapid turnover of this credit, terms of lending can be adjusted to meet different market situations. This will be demonstrated below in connection with the imposition and removal of Regulation W.

Regulation W dampened credit expansion

Installment purchasing had dominated the recent credit picture, accounting for \$3½ billion of the \$4 billion increase over the past year. Hence the following discussion will be centered on an analysis of this area of credit expansion.

Since the elimination of controls, available evidence suggests that downpayments have been lowered and maturities have been lengthened, thus tending to add to the credit base through larger loans relative to the purchase price and slower repayments on the new loans negotiated. It may be recalled that these trends were strongly in evidence in the period before credit was recontrolled.

Table 1.—Installment Credit Changes

(Billions of dollars)

Year	Outstanding start of year	New loans during year	Repayment during year
Automobiles			
1946.....	0.4	1.6	1.0
1947.....	0.9	2.0	2.0
1948.....	1.7	4.2	3.2
1949.....	2.7	5.8	4.5
1950.....	4.1	7.2	5.9
1951.....	5.3	7.4	7.6
1952.....	6.2	10.0	8.4
1953.....	6.7
Major Household Goods¹			
1946.....	2.0	5.7	4.8
1947.....	3.2	8.0	6.4
1948.....	4.8	9.4	8.2
1949.....	5.9	10.0	9.0
1950.....	6.8	11.3	10.1
1951.....	8.1	11.6	11.4
1952.....	8.3	14.0	12.3
1953.....	9.8

¹ Includes repair and modernization loans.

Source: Board of Governors of the Federal Reserve System.

New loans made on both automobile purchases and major household goods rose rapidly from 1949 to 1950. The 1949-50 expansion was, in part, the result of decontrol which occurred in mid-1949 but perhaps more importantly, of the rise in purchases in 1950 of goods normally bought on credit.

Regulation W served not only to check the tendency toward more liberal terms, but also to cause some tightening of maturities and downpayments and hence to restrict the net increase in indebtedness. However, the volume of new lending was not lowered during the control period (table 1).

Post-Korean recontrol was introduced in September and October of 1950 and remained in effect throughout 1951. Yet total new borrowing in 1951 was actually slightly larger than in the preceding year. This expansion occurred despite the fact that consumer spending on durable goods in 1951 was lower than in 1950 (table 2). Consumer purchases of new passenger cars in 1951, for example, were down about 16 percent and other selected durables of the high-ticket variety were off some 8 percent from 1950.

That a spreading use of consumer credit took place during a period of controls is in no way indicative of defective application of the law, since Regulation W was never intended to control directly this aspect of credit. It is probable that the controls did indirectly restrict the volume of

new lending by imposing terms which some consumers felt were too burdensome to undertake.

The 1952 upsurge

Regulation W was suspended on May 7, 1952. The resultant freeing of terms and the associated widening in the use of borrowed funds raised the volume of new installment loans made during 1952 to the record sum of \$24 billion, \$5 billion more than in the preceding year. Repayments also rose but at a slower pace and, for the year 1952 as a whole, the net expansion of installment debt amounted to about \$3 billion.

Table 2.—Index of Consumer Expenditures for Selected Durable Goods

(1950=100)

	1950	1951	1952*	1953 1st qtr. (seasonally adjusted)
New passenger cars.....	100	81	77	97
Total selected durables other than automobiles.....	100	93	84	90
Furniture.....	100	102	100	D. A.
Floor coverings.....	100	101	85	D. A.
Radio, television, etc.....	100	95	75	D. A.
Major household appliances.....	100	85	70	D. A.

p.—preliminary.
D. A.—Not available.

Source: U. S. Department of Commerce, Office of Business Economics.

The net expansion of installment credit in 1952 equaled one-sixth of total spending on major consumer durable goods. In other words, consumer payments out of their own resources for durable goods (excluding interest) equaled only five-sixths the value of their purchases. This credit expansion may be compared with the relative stability of such debt in 1951, when purchases of durable goods were actually larger than in 1952.

Influences in the 1952 expansion

To analyze adequately the current consumer credit situation it is important to segregate the various influences involved in the recent upsurge. In the absence of information on such considerations as the current terms of consumer loans, it is not possible to measure exactly the relative impact of the many factors in operation. It is possible, however, from fragmentary data, set in the background of previous experience, to evaluate the major aspects of the recent credit increase.

In the past, developments in decontrol periods and in intervals of easing controls clearly indicate that with no drastic changes in the demand and supply situation, the market moves quickly in the direction of "easier" credit once the green light is given. After controls were ended in June 1949, credit terms were quickly and considerably liberalized.

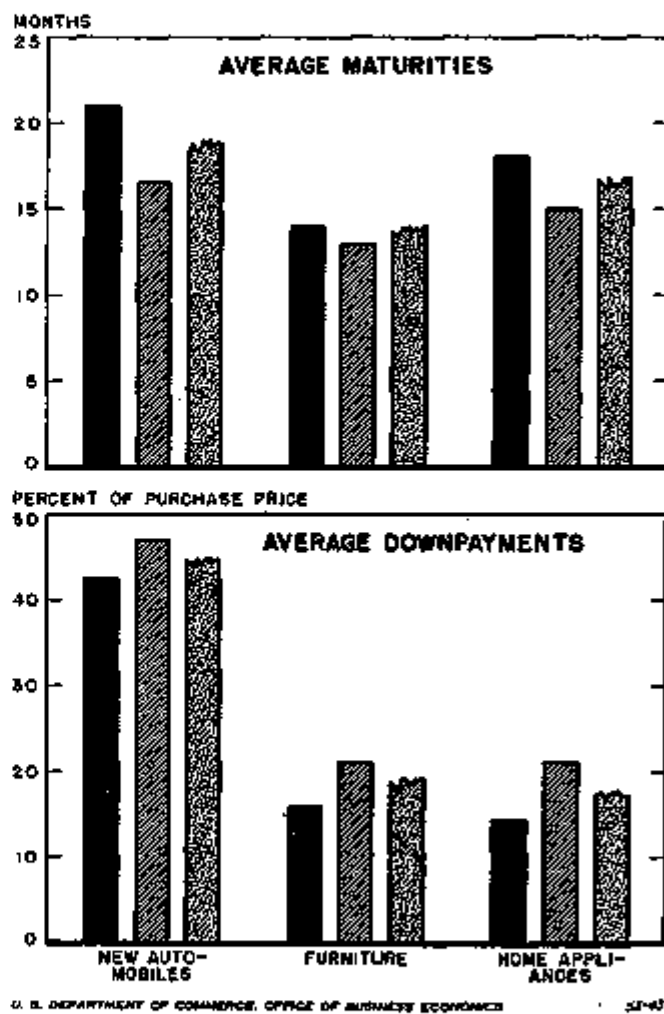
Table 3 shows a comparison of average terms prevailing during controls with those which were in effect about a year after the previous decontrol in June 1949. It is believed that the difference in terms indicated in the table can be used as a first approximation of the liberalization which may have occurred since the most recent decontrol last May. A return to the "precontrol" situation pictured in the table would account for roughly half of the total increase of \$3 billion in installment credit during 1952.

The greater part of the net increase associated with the liberalization of terms would be directly related to the lengthening of maturities. An easing of downpayments such

as pictured in the table would have tended to have the more immediate effect in increasing credit, but over a period of time, a lowering of regular monthly payment in the magnitude suggested by table 3 would have the greater quantitative impact. This is particularly true in the case of automotive credit where average downpayments did not appear to be so greatly affected by controls as were maturity schedules.

Consumer Credit Terms

■ NO CONTROLS IN EFFECT (APRIL-SEPT. 1950)
▨ CONTROLS IN EFFECT (AUG.-OCT. 1951)
▤ CURRENT



The remaining \$1½ billion net increase in installment debt in 1952 may be directly traced to more extensive use of credit in the consumer markets. Of course, this expansion cannot be divorced from the easing of terms since in large part the more widespread use of credit probably reflected the decisions of some consumers in 1952 to satisfy demands postponed by reason of the more restrictive control requirements in effect in 1951.

This spreading effect of consumer credit buying in 1952 is vividly illustrated in table 4, which shows for recent years the estimated proportion of people making use of borrowed funds in purchasing new automobiles and major household

goods. It is estimated that three-fifths of all new passenger cars purchased last year were made with the aid of some borrowed funds. This compares with a proportion of less than one-half in each of the three preceding years. The rise from 1951 to 1952 in the proportionate use of credit buying of major household goods, while not so spectacular, was also substantial.

Current proportions are probably higher than those shown in the table for 1952. However, it would appear unlikely that they are out of line with ratios prevailing prior to World War II. At that time, trade reports suggest, of total sales of major durable items, two-thirds were made on time.

Credit not unduly high

Table 5 presents a comparison of trends in income and short-term consumer debt. It will be seen that both income and consumer debt have risen greatly since prewar. The proportion of debt to income did not approach the prewar peak until recently. Until the current upsurge, which has raised the ratio of debt to income to about 10 percent, the postwar high in the ratio had been 9.2 percent in the period just prior to reconrol—while the highest prewar ratio was 10.8 percent in 1940.

Table 3.—Consumer Credit Terms

	Precontrol ¹	Control ¹
	Average Maturity (in months)	
New automobiles.....	21	18 1/2
Furniture.....	14	12
House appliances.....	18	15
	Average Downpayment (as percent of purchase price)	
New automobiles.....	47 1/2	47
Furniture.....	10	21
House appliances.....	14 1/2	21

¹ Precontrol terms are those on contracts negotiated between April 1 to September 17, 1950. Control terms are those on contracts signed from August 1 through October 27, 1951.

Source: Board of Governors of the Federal Reserve System.

The dampening effect of Regulation W is evident in the fact that debt was held relatively stable for a year and a half while incomes continued to expand, and at the end of controls last May the proportion of debt to income was 8.6 percent, only moderately higher than in mid-1949 when the last of the wartime controls were lifted.

In evaluating the consumer short-term debt, it is significant to recall there has been a strong secular uptrend in the debt-income relationship, attributable entirely to the installment component. This uptrend was halted by shortages of durable goods and credit controls during the war years and, while consumer borrowing advanced sharply in the postwar period, the outstanding indebtedness falls short of the total which would reflect the maintenance of the prewar trend. For example, present installment debt constitutes about 7 percent of disposable income, about the same proportion as just before the war. This compares with a rise in the ratio of 3 percentage points in the 1929-40 period.

Needless to say, there is no obviously necessary reason to assume that the prewar influences tending to increase consumer debt relative to income would be projected with equal force into the postwar period. There is on the other hand no sound basis for supposing that these forces have ceased to exist.

The prospective credit picture

If terms in current sales contracts approximate those pictured in the "precontrol" column in table 3, a further increase in consumer credit may be expected in the period immediately ahead, totally apart from any extension of credit buying. This is due to the fact that outstanding contracts include not only those recently negotiated but those which were signed on the more restrictive terms of Regulation W. To the extent that these latter contracts are replaced by those involving the more liberal terms

Table 4.—Credit Sales as Proportion of Total Sales (Percent)

Year	New Automobiles	Major Household Goods
1949.....	43	54
1950.....	46	50
1951.....	47	52
1952.....	50	50

Source: The Board of Governors of the Federal Reserve System, except for 1952 which are estimates made by the Office of Business Economics, U. S. Department of Commerce.

currently prevailing, average maturities will be lengthened, average loans relative to purchase price will be increased, and hence total credit outstanding will continue to rise. By the latter part of the year the combined impact of these influences will have been fully felt.

The current supply of consumer durables is substantially higher than a year ago and still rising. Hence, if demand remains strong and the current proportion of credit buying is maintained, this will also be a factor tending to increase the volume of outstanding debt.

Table 5.—Disposable Personal Income and Short-term Consumer Credit Outstanding, Selected Periods, 1929 to 1953

	Billions of dollars				Credit as a percent of income		
	Disposable personal income	Consumer Credit					
		Total	Installment	Other	Total	Installment	Other
1929.....	51.5	8.3	3.2	5.1	7.6	3.9	3.7
1940.....	71.7	8.3	5.4	2.9	10.8	7.1	3.7
1941.....	92.0	8.3	5.0	3.3	9.0	6.4	2.6
1942.....	131.1	8.6	2.4	6.2	6.5	1.8	4.7
End of wartime controls ¹	157.3	14.3	9.1	5.2	7.6	4.9	2.7
Start of Korean controls ²	208.5	19.3	13.3	6.0	9.2	6.4	2.8
End of Korean controls ³	230.8	19.8	13.3	6.5	8.6	6.0	2.6
Current ⁴	245.0	22.5	15.7	6.8	9.2	6.8	2.4

¹ June 1949 for credit and second quarter 1949 for income.

² September 1950 for credit and third quarter 1950 for income.

³ April 1952 for credit and second quarter for income.

⁴ February 1953 for credit and first quarter 1953 for income.

Source: U. S. Department of Commerce and Board of Governors of the Federal Reserve System.

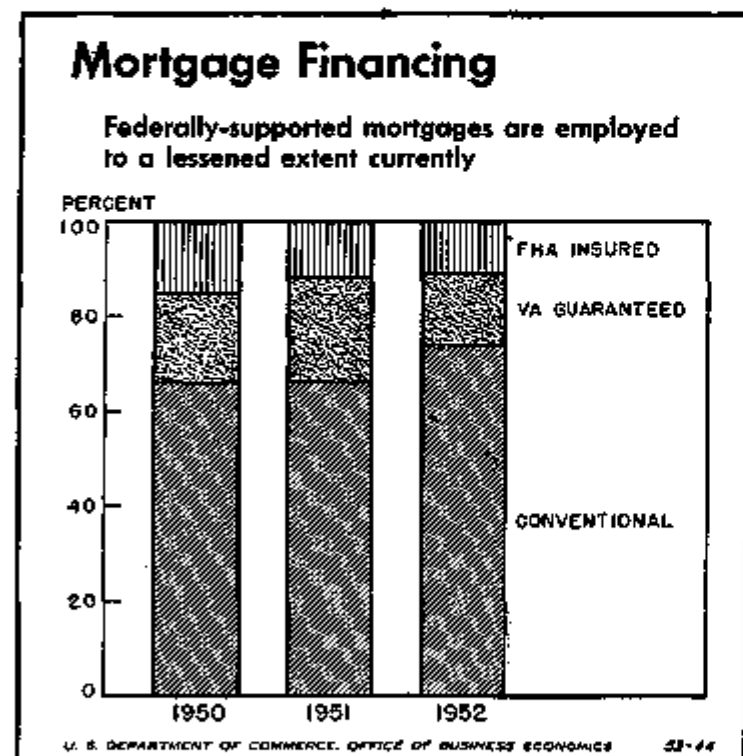
In this perspective, the rise in consumer debt in 1953 could be substantial. It should be emphasized, however, that credit expansion is unlikely to be continued for any extended period at the rapid rate experienced in the past year since the pace of the increase depended on two unusual developments, a sharp climb in output of durable goods, and a progressive and substantial easing of credit terms. To the extent that the latter factor is stimulating sales, the stabili-

zation of credit terms would exert some dampening influence on demand for durable goods. This would tend to make income considerations of increasing importance in the market for these goods.

Residential Mortgage Debt

Residential mortgage debt has moved up with the housing boom of the postwar period. Total debt outstanding on 1-to-4 family nonfarm houses topped \$58 billion at the end of 1952, an expansion of almost \$6½ billion for the year and \$40 billion more than at the end of World War II.¹ The 1952 increase was somewhat larger than the average annual gain in the postwar period, but below the record increase of \$7½ billion which occurred in 1950.

The sustained postwar rise in mortgage debt has been a product of a number of major influences, of which the overriding consideration was the combination of a substantial back-log of demand for housing and the favorable financial condition of the public. In addition, there has been a pronounced shift to home ownership as opposed to rental housing, and at the same time an increasingly frequent use of borrowed funds in buying these houses.



These developments contributed to a buoyant real estate market which witnessed generally rising real estate prices, and hence expansion of the mortgage base. On the supply side, the generally satisfactory financial condition of buyers and the availability of Federal insurance or guarantees was conducive to relatively free lending by financial institutions with record sums seeking investment.

New mortgage loans fell drastically in the early depression years from a range of from \$4 to \$5 billion a year in the late

twenties to a low of \$1 billion in 1933. Repayments fell much less rapidly from \$3 billion in 1929 to \$2 billion in 1933. In the subsequent recovery phase, privately financed housing activity did not approach the predepression rate until just before the war, and with prices generally lower in the latter period, new mortgage lending remained below that of the twenties. Borrowing exceeded repayments, however, in the 8-year period from 1933 to 1941, with the result that outstanding debt rose by \$3 billion, or about back to the 1929 total.

The volume of new loans made during the war remained relatively low and was approximately matched by retirements. Thus at the start of the postwar period, the value of outstanding mortgages was no higher than in 1929 (see chart on p. 12).

Over this period, however, the financial status of individuals had been greatly improved. Consumers disposable income amounted to \$150 billion at the war's end compared with \$82.5 billion in 1929. While a good part of this rise reflected higher prices, real purchasing power in 1945 was also well above that of the twenties. The middle line of the right panel of the chart on page 12 depicts the trend in the ratio of mortgage debt to consumer income. The improved debt-income situation at the war's end is clearly evident, with the proportion of mortgage debt to income amounting to 12 percent in 1945 as compared with 20 percent in 1941 and an even slightly higher proportion in 1929.

As may be seen from the chart, the increase in mortgage debt in the past 7 years was relatively much more rapid than the rise in income. Yet at the present time outstanding indebtedness is only moderately in excess of the amount suggested by the relation to income in the more prosperous prewar years. At the end of 1952, mortgage debt of individuals was equal to about one-fourth of consumer income compared with the prewar proportions of from 20 percent to 23 percent in both the late twenties and early forties.

Interest burden lower

The simple relation of debt to income does not adequately portray the full story of the impact of current mortgage debt. It is also necessary to weigh the trend of the debt-servicing charges in relation to consumers' income.

Total interest payments on residential mortgage debt currently amount to \$3 billion, and have been rising in the recent period at the rate of \$300 to \$400 million a year, reflecting largely the rise in outstanding debt. In historical perspective, the present payments are relatively low, with interest charges up much less than income (table 6). Payments are approximately double the charges just before the war and 60 percent above the average of the late twenties. Income, on the other hand, is currently roughly three times the amount in 1940 and in 1929. As may be seen from the table, interest payments on mortgages are currently 1.3 percent of income in contrast to 2.2 percent in 1929.

At the present time, the effective interest rate is approximately 5 percent in contrast to a rate of over 6 percent in the late twenties. The lower interest rates reflect not only a general rate reduction but also the fact that a large proportion of the current debt is under Federal support or guarantee whereas no such protection was afforded in the earlier period.

Debt retirement higher

Data are not now available to measure current payments on principal. However, from new mortgage records and information on the net change in mortgage debt, it is possible

¹ These text figures utilize recent revisions by the Federal Home Loan Bank Board of the series on outstanding mortgage debt. Since the revisions thus far made cover only the 1938-52 period, the series shown in the chart is on an unrevised basis which is, however, sufficiently reliable to depict the long-term trend.

to derive a series of retirements of debt.² Since new loans made reflect not only borrowing to finance house purchases but also refinancing of existing mortgage debt, the residual "retirement" series is likewise affected by refinancing operations as well as other factors such as foreclosures. Such a series may, however, throw some light on repayment trends. The ratio of apparent retirements to disposable income is shown below for selected time periods:

	Percent
Building boom of 20's.....	3.5
Predepression (1929).....	4.1
Pre-World War II.....	3.4
World War II.....	2.7
Late postwar boom.....	4.0
Current.....	5.0

Thus the reduced impact of interest charges in large part offsets the somewhat higher relative repayment requirements. While the total charges of repayments and interest are somewhat higher in relation to income than in the immediate prewar situation, they are not significantly higher than in the late twenties.

Trend to home ownership

Over a long period of time, there has been a trend from rented to owned dwelling units (table 7). Whereas just before and at the turn of the 20th century, 63 percent of occupied units were rented, by 1930 the proportion of rental units had dropped to 54 percent. The depression years of the thirties saw a temporary reversal of this trend as the inability of many home owners to service their debt resulted in foreclosures and forced sales. By 1950, home owners occupied 53 percent of total dwelling units.

Increased use of mortgages

This relative gain in owned homes over past decades has probably tended to provide an expanded mortgage credit base. More important has been an increased tendency on the part of individuals to avail themselves of borrowed funds in buying homes (table 8). Between 1890 and 1920 the proportion of owner-occupied nonfarm homes with mortgages increased from 28 to 40 percent of all owner-occupied homes. The rate of relative increase was somewhat lower for the 1920-40 period. While data on the debt status of homes were not collected in 1930, it is reasonable to suppose that this slowing of the pace to mortgaged homes was largely the reflection of the depressed condition of the thirties. It is interesting to note that despite the sharp postwar debt increase, the proportion of mortgaged homes in early 1950—44 percent—was still not up to that of 1940. Although the continued heavy use of credit purchases of homes since 1950 has probably brought the number of mortgaged homes to a position of greater relative importance at the present time, it is unlikely that the ratio is out of line with the historical trend.

Financing terms eased

Available data on mortgage terms are inadequate to accurately assess the influence of easier terms in the increasing use of mortgages and the expanding volume of mortgage debt. There seems to be little doubt, however, that there has been an historical tendency toward easier terms which has made possible more widespread acceptance of mortgage financing. As indicated above, amortization of principal has in considerable degree replaced lump-sum payment requirements. While this development may have increased current carrying charges over the short-run, the regulari-

zation of repayment permits more careful budgeting which would tend to reduce the risk not only for the borrower but for the lender as well. With risk lowered, the lender did not have the same incentive to require downpayments as high as would have otherwise been necessary.

With respect to both maturity schedules and downpayments, the most radical changes were introduced in the war and postwar periods. Most important of these changes were the liberalization of lending terms under FHA mortgage insurance provisions early in the war and the introduction of the even more liberal credit provisions under VA guarantees after the war. These developments not only tended to increase debt directly, but also brought into the housing market persons who might not otherwise have been able to meet previous downpayment or monthly service charges.

Also important has been the secular downward drift in mortgage rates. Throughout the postwar period, conventional first-trust mortgages were typically available at 5 percent; and Federally supported mortgage funds, which accounted for from one-fourth to one-third of all mortgage loans in this period, were generally available at from 4 percent to 4½ percent. These figures may be contrasted with the situation in 1920, when it was found that five-sixths of the then outstanding mortgages carried face interest rates of 6 percent or more with one-fifth of the mortgages involving interest charges of 7 percent or more.

Supply of mortgage funds

The rate of increase in debt is, of necessity, intimately connected with available supply of mortgage funds, which in turn, is affected by the savings of the community and by the relative attractiveness of mortgages as compared with other investment opportunities available to lending institutions. Savings of individuals in the recent past—since the subsiding of the post-Korean buying waves—have been at a high rate. The improved supply of funds generated by these savings provided the basic source of mortgage money in the recent period.

Table 6.—Interest Payments of Individuals Related to Income
(As a percent of disposable personal income)

	Mortgage interest payments	Interest on personal debt	Interest on mortgages and personal debt
1929.....	2.2	.7	2.9
1933.....	3.7	1.0	4.7
1940.....	2.7	1.0	3.7
1945.....	.8	.3	1.1
1950.....	1.1	.3	1.4
1951.....	1.2	.3	1.5
1952.....	1.2	.3	1.5

Source: U. S. Department of Commerce, Office of Business Economics.

The availability of mortgage funds has been affected, however, by the general firming of long-term interest rates in the past two years. This has meant that Government-supported mortgages, with contractual interest fixed by administrative decision or by law, are not so prominent a method of financing as before the change (see chart).

It may be noted that even before the upward trend in long-term interest rates initiated in early 1951, mortgages insured or guaranteed by the U. S. Government had received considerable support from the operations of the Federal National Mortgage Association. This support reached a peak in 1950, when FNMA purchases of VA mortgages amounted to \$1 billion, equivalent to one-third of new VA loans closed that year. At the present time, support activity of this agency is

² New recordings less change in debt equals apparent retirements.

much more limited, and directed especially to special programs authorized by Congress.

The current and prospective situation

Despite the sharp postwar rise in mortgages, present debt does not appear unduly high in the perspective of the public's current ability to carry the burden. A good part of the expansion reflected the realization of housing demand pent up by wartime limitations on residential construction while another significant part may be attributed to the continued

Table 7.—Tenure of Occupied Nonfarm Residences, 1890-1950

	Number of units (millions)	Percent	
		Owned	Rented
1890	7.9	90.9	9.1
1900	10.2	90.5	9.5
1910	14.1	88.4	11.6
1920	17.5	90.2	9.8
1930	23.3	90.0	10.0
1940	27.7	41.2	58.8
1950	35.0	52.3	47.7

Source: U. S. Department of Commerce, Bureau of the Census.

expansion of consumer income in the postwar period. It should be noted, moreover, that while the postwar inflation involved serious difficulties for some sectors of the population, all but the more recent home purchasers have seen their housing equities improved by the general rise in real estate values.

The mortgage picture is, however, one that warrants careful scrutiny. A debt burden which does not appear unduly heavy in the light of current financial conditions could be greatly increased if incomes fall. In such an event not only would the housing market be directly affected, but the secondary effects of the relatively high fixed charges would probably be felt in other consumer markets as well.

In the absence of any substantial reduction in housing activity, a further rise in mortgage debt may be expected in the nearterm totally apart from income expansion. This would reflect the sustained volume of new loans associated with the current rate of activity combined with but a moderate expansion of debt repayment over current levels.

Balance Sheet Position of Individuals

Indebtedness of individuals should be also evaluated in terms of the asset holdings of the public. Data on the value of assets against which this debt was incurred are not complete but it appears that equity in such assets has been increased substantially from prewar, probably by more than the increase in debt.

Debt-value relation for homes

In the housing census of April 1950, the Bureau of the Census found that owners who reported the market value of mortgaged residential units placed a value of \$90 billion on these units. Outstanding mortgages on these dwellings were reported at \$33.8 billion, implying an equity of over \$46 billion, or 58 percent of the estimated value. These figures may overstate the actual equity since the owner may think in terms of the "asking" rather than market price. This reported proportion of equity to value of mortgaged residences in 1950 was well above the similarly reported proportion of less than 50 percent in 1940, about the same as in 1920, and only moderately below the reported ratio as far back as 1890 (60 percent).

Since the Census survey in April 1950, both the value of, and debt on mortgaged homes have increased substantially. There is little doubt, however, that these changes have not brought the current proportion of equity to market value below the range of prewar experience. This is probably also true of other major consumer durable goods.

Liquidity still substantial

At the same time, consumers have maintained a liquidity position which, while not so favorable as during the war, is more favorable than in any recorded prewar year. Total liquid assets of individuals are usually defined to include: (1) currency, (2) savings deposits (including shares in savings and loan associations); (3) demand deposits; (4) U. S. Savings bonds; (5) other securities; and (6) equity in private life insurance.

The Securities and Exchange Commission estimates these accumulated savings of individuals (including unincorporated business owners) amount to about \$500 billion at the end of 1952, \$100 billion more than at the end of the war and somewhat more than double holdings in the late twenties. While the growth in the total sum of these liquid assets since the twenties has not kept pace with consumer income, individual holdings of "quick" assets have gained relatively. Ownership of cash or near-cash assets (items 1, 2, 3, and 4 above) amounted to \$210 billion at the end of 1952. This is about 4½ times the value of such assets owned in the late twenties. These assets currently are equal to about 90 percent of disposable personal income, which may be compared with about 70 percent just before the war, and approximately 55 percent in the twenties.

Table 8.—Mortgage Status of Owner-Occupied Nonfarm Residences, 1890-1952

	Total owner occupied units (millions)	Percent	
		Free of mortgage	Mortgaged
1890	2.9	72.3	27.7
1900	3.6	68.0	32.0
1910	5.2	69.7	30.3
1920	7.0	69.2	30.8
1930	10.2	69.5	30.5
1940	11.4	54.7	45.3
1950	15.2	56.4	43.6

n. a. = Not available.

Source: U. S. Department of Commerce, Bureau of the Census.

There is no adequate information available to analyze over the long term the possible changes which may have occurred in the distribution of these holdings, and undoubtedly some groups are not so well off liquidity-wise as in earlier periods. Data derived from the Federal Reserve Board's Survey of Consumer Finances indicate that at the end of 1951 (the latest date for which information is available) spending units in the lower half of the income bracket owned one-fourth of the value of deposits and U. S. savings bonds held by all individuals, about the same as in the preceding year and a somewhat higher proportion than in early 1947, a period which probably still reflected the unusually favorable pattern of liquidity at the end of the war. There were, moreover, no striking shifts in relative holdings among the various income groups, except that there was an apparent tendency over this period for higher income groups to shift their preference toward less liquid types of assets.

It may be noted that current liquid asset holdings as compared with prewar indicate the largest relative gain was in those types which are most widely held. This largely reflects the greatly increased holdings of U. S. savings bonds during the war, and the relatively well-maintained ownership of these securities over the postwar period.